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BUREAU OF
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(U) CHINA: ECONOMIC REFORMS ENTAIL
SOME SOCIAL RISKS

(C) Summary

Recently available figures for provincial economic performance in 1984 suggest that China's economic reform policies--especially the opening to the West--may be contributing to growing regional inequalities. The perception by some provinces that they are being left behind could prove to be a significant political problem for Beijing over the next few years.

At the same time, China seems to be on the verge of extending its program of entrepreneurial reform from the economic and scientific sectors to the educational system and other social services. This expansion of the market-oriented approach, if pushed too far, may undermine some services taken for granted by Chinese citizens for more than 30 years.

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(C) Risks of Regional Inequality

Statistics on economic growth last year in China's provinces--which may include differences in regional reporting practices and prices--seem to point to the emergence of two types of inequality between provinces. The first--lagging growth in China's old industrial heartland--likely will be temporary. The second--widening disparities between the coast and the interior--highlights the risks of China's announced policy of allowing some areas, as well as some individuals, to get rich before others.

In 1984, China's three big industrial cities--Shanghai, Beijing, and Tianjin--along with the

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heavy industrial provinces of the northeast, grew at rates below the national average, achieving an average 10.6 percent increase in gross value of industrial output in a year of 13.6 percent national industrial growth. Shanghai's growth rate was only 9.7 percent and Tianjin's, 9.5 percent.

In an average year, growth rates of about 10 percent would be cause for praise. In the current atmosphere of completing 6th Five-Year Plan targets a year ahead of schedule and assuring the long-term goal of quadrupling output by the year 2000, however, they are probably disappointing to Beijing.

Shanghai's growth rate, one of the lowest in the country, is undoubtedly one of the chief causes for the extensive and intense criticism of the city's leadership by national leaders during the last year. The relatively poor performance in Tianjin, however, is a bit of a surprise. The city's mayor, Li Ruihuan, reportedly a protégé of party chief Hu Yaobang and Vice Premier Wan Li, has been a media favorite during the past year or more for his success in implementing economic reforms. The city's substandard industrial growth, however, could be used by conservative opponents of thorough and rapid reform to counter the argument that successful reform necessarily leads to high economic growth, at least in the short term.

The problem of China's industrial base, although serious, appears to be temporary. Several years of "readjustment," in which the government has attempted to curb investment in heavy industry and cut overall government spending, have resulted in rapid growth in light industry, especially in small coastal and southwestern towns. Construction of new basic industry has been limited, while renovation of the existing heavy industrial plant has often been delayed. Last year, it became clear that the principal feature of the 7th Five-Year Plan--due to begin in 1986--will be reconstruction and renovation of China's decaying heavy industrial and transportation base. Thus, economic growth in the northeast and in China's three big cities should begin to pick up during the next several years.

China's other apparently emerging regional inequality may not be so easy to redress. Available figures show that the southern provinces--those most favored under the "open door" policy--are rapidly taking advantage of their greater access to foreign technology and investment capital to pull farther ahead of the interior and the traditionally poorer provinces. Industrial growth in Zhejiang, Jiangsu, Fujian, and Guangdong in 1984 neared or exceeded 20 percent, while growth in the northwest averaged about 11.4 percent.

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Eleven percent growth is not bad, even for provinces where the base figures are so low that modest absolute increases should produce relatively high growth percentages. In Tibet, however, where the central leadership has undertaken a widely publicized effort to liberalize social as well as economic policies, industry apparently grew only at about a 5 percent rate, so low that statistical authorities have yet to report it. The issue in the future may not be so much whether interior provinces are growing more slowly than in the past, or whether they are growing more slowly than coastal areas--but whether they perceive that they are being left behind under the reform program.

Increasing dissatisfaction with the leadership's announced policy of temporarily widening regional disparities could present a problem for the reformers, especially after Deng Xiaoping is dead. Hinterland provinces, chafing under their inferior access to foreign technology and investment, already seem to be complaining that the favored coast is taking undue advantage--for example, by reselling such duty-free goods as motor vehicles at excessively high markups. Interior provinces are banding together to protect their regional economic interests--groupings already include at least a northwest one and an economic coordination coalition of Sichuan, Yunnan, Guizhou, and Guangxi. In the post-Deng period, such combinations could join with conservative central leaders to press for greater limitations on the "open door" policy or for "share the wealth" schemes that could make investment in China much less attractive to foreign investors.

Risks to Social Services

(C) China also seems to be on the verge of extending its program of entrepreneurial reform from the economic and scientific sectors to the educational system and other social services. This expansion of a market-oriented approach, however, if pushed too far, may undermine some services taken for granted by Chinese citizens for more than 30 years.

(C) Chinese leaders are taking steps to address some of the problems of both teachers and students. Last year, for example, the leadership announced a pay raise for primary school teachers in 1985 and liberalized policies on overseas research sabbaticals for scientists and college educators. Also last year, a spate of local campus disturbances prompted the regime to improve student cafeterias and living conditions and to give students a greater voice on campus.

(S/NF/NC/OC) These reforms are likely to be widely popular, except perhaps with hidebound administrators. Some of the

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leadership's other plans for university reform, however, are proving more contentious. Shanghai's prestigious Jiaotong University has pioneered the institution of outside research and development work on contract for industrial and commercial units in an effort to link more closely academic capabilities with economic needs and, perhaps more importantly, to make money for the university. The so-called Jiaotong model is being widely praised, with support from the highest levels, reportedly including Deng Xiaoping and Wan Li.

(S/NF/NC/OC) Some educators, however, see the Jiaotong model as setting a dangerous precedent. Jiaotong's position as a premier science and engineering school favors it in competition for outside contracts. Not all universities will have such advantages; liberal arts colleges and teacher training institutions will be particularly hard pressed to follow in Jiaotong's path. In the rush to land lucrative contracts, the quality of Jiaotong's teaching and research is declining, according to critics. In addition, the emphasis on making money may lead some schools into irregular or illegal financial arrangements. Critics report that Jiaotong, for example, misused a loan, originally granted for library construction, to build a guest house.

(C) The criticisms of potential dangers from the market-oriented Jiaotong model may point to a larger danger in the reform program. Pressure seems to be building for all government activities to break even--or show a profit. As Wan Li told last December's Rural Work Conference, "We should change from giving free support to support on condition of repayment." Casualties of this approach may include important "nonproductive" services such as China's heavily subsidized health care system. According to a recent Chinese press report, a move is under way to change the view of medical care as "a purely welfare undertaking" and to institute a system of "rational compensation" under which patients would bear some or all of the cost of treatment. According to one proposed scheme, patients would pay the entire cost of treatment for minor illnesses, 30-40 percent for intermediate illnesses, and nothing for major illnesses or operations. Unless handled with sensitivity, loss of such benefits as "socialized medicine" could lead some to question how much socialism remains in Deng's much-vaunted "socialism with Chinese characteristics."

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